THE DISTRICT'S DIME
GOING BEYOND THE BUDGET BOOK

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Tax Day 2019: Making the Right Tax Choices Can Help DC Thrive

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Happy Tax Day! On this Tax Day, we celebrate what taxes make possible in our communities. They allow us to have a robust library system, on-time trash collection, clean water, community parks, schools, and more. And, they allow us to make critical investments towards a DC where everyone can thrive. Taxes, and tax laws more broadly, are our key tool for ensuring that everyone pays their fair share and that all DC residents can benefit from our city's growing prosperity.

Approaches to raising and spending DC's resources are not static. Rather, they are shaped by deliberate policy choices. These tax policies determine how much money, or revenue, the city has to allocate to various priorities. And, they can be used to achieve specific outcomes, like incentivizing behavior from businesses or helping residents make ends meet. When done poorly, such tax policies are ineffective and waste resources that could go towards strengthening our community's schools, infrastructure, affordable housing, and more. But when done well, targeted tax policies achieve their intended outcomes and help make our tax code fairer.

In honor of Tax Day, here are three steps the DC Council can take to strengthen DC's tax policies now, as they work on the fiscal year (FY) 2020 budget.

Close Tax Loopholes for Corporations

Each year, the District wastes millions of dollars on ineffective economic development tax incentives. Changing or eliminating ineffective business tax cuts would free up resources that the District could use to invest in the building blocks of a strong economy.

For example: DC loses $40 million annually in tax cuts for high technology companies—and has nothing to show for it. Under this Qualified High Technology Company (QHTC) incentive, companies can self-identify as high-tech and claim some tax breaks indefinitely. A recent review from the DC Chief Financial Officer (CFO) found that many of the companies claiming the tax incentives are located outside of DC, and were already engaging in the same "incentivized" behavior before they began claiming the subsidies. And without penalties, or "clawbacks," there is no accountability for companies who have claimed the inventive but failed to follow through on their end of the deal.

Tax loopholes like the QHTC incentive benefit corporations and hurt the District. They are problematic because they aim to shape outcomes that would happen anyway, pit jurisdictions against each other, and waste resources that could strengthen the economy in more effective ways.

Scaling back or eliminating ineffective tax incentives, beginning in FY 2020, would mean that corporations pay their fair share, and would give us more resources to invest in the things that actually strengthen the economy, like a skilled workforce, good infrastructure, and quality schools.

Expand Schedule H Tax Credit to Help Residents Make Ends Meet

The Schedule H tax credit is a property tax credit for renters with low incomes and homeowners whose property taxes are high compared to their income. It's one of the District's targeted tools for helping residents who are struggling in a changing DC.

The proposed FY 2020 budget expands Schedule H (referred to in the budget as the "Keep Housing Affordable" tax credit) so that residents working hard to make ends meet can claim a larger credit and so that more people are able to benefit from the credit. The budget increases the maximum credit from $1,025 to $1,200 and increases the maximum income eligibility from $52,000 to $65,000 for non-seniors and from $70,000 to $80,000 for seniors.

Expanding Schedule H is a targeted and effective way to help those who really need it. The Council should keep this expansion when it approves the FY 2020 budget.

Invest in Targeted Approaches to Child Care Affordability

The proposed FY 2020 budget would make permanent a $1,000 child care tax credit, costing the District $2.5 million annually. While using the tax code to help families address child care expenses can be part of a system of ensuring access to quality care, this proposal raises concerns and should not be a current priority.

The tax credit doesn't tackle the most serious issues in access to high-quality care in DC. Some 5,000 children access early care through DC's child care subsidy program, yet that program is not set up to provide high-quality care largely because it doesn't provide enough resources per-child. The "Birth to Three for All DC" Act, adopted in 2018, calls for increasing resources to cover the cost of high-quality care and support a trained and experienced workforce. The proposed budget provides $5 million to improve the child care subsidy program, but this is far below the $22 million needed this year to move forward with the Birth to Three legislation. The $2.5 million proposed for the child care tax credit would be better used supporting the child care subsidy program.[1]

Beyond that, the design of the child care tax limits its effectiveness. With child care costs averaging $23,000 a year for DC families, a $1,000 credit is unlikely to meaningfully impact early care costs or improve access to desired care. Additionally, as a proposed tax credit available to families with incomes up to $750,000, it is not targeted to the families who are most burdened by the high costs of early care.

The Council should revisit the $2.5 million proposed for the child care tax credit and put it towards implementing the Birth to Three Act.

[1] The Birth-to-Three Act includes other provisions to ensure that families outside the subsidy program don't pay more than 10 percent of their income on child care, to be implemented after improvements in the subsidy program are complete.